

CERTIFICATION OF ENROLLMENT

**SUBSTITUTE HOUSE BILL 1856**

59th Legislature  
2005 Regular Session

Passed by the House April 18, 2005  
Yeas 95 Nays 0

---

**Speaker of the House of Representatives**

Passed by the Senate April 11, 2005  
Yeas 46 Nays 0

---

**President of the Senate**

Approved

---

**Governor of the State of Washington**

CERTIFICATE

I, Richard Nafziger, Chief Clerk of the House of Representatives of the State of Washington, do hereby certify that the attached is **SUBSTITUTE HOUSE BILL 1856** as passed by the House of Representatives and the Senate on the dates hereon set forth.

---

**Chief Clerk**

FILED

**Secretary of State  
State of Washington**

---

**SUBSTITUTE HOUSE BILL 1856**

---

AS AMENDED BY THE SENATE

Passed Legislature - 2005 Regular Session

**State of Washington                      59th Legislature                      2005 Regular Session**

**By** House Committee on Commerce & Labor (originally sponsored by Representatives Conway, Condotta, Wood, McCoy, Kessler, Campbell and Chase)

READ FIRST TIME 02/23/05.

1            AN ACT Relating to industrial insurance fund audits; amending RCW  
2 43.09.310; and adding a new section to chapter 51.44 RCW.

3 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

4            NEW SECTION.    **Sec. 1.** A new section is added to chapter 51.44 RCW  
5 to read as follows:

6            (1) The department shall:

7            (a) Prepare financial statements on the state fund in accordance  
8 with generally accepted accounting principles, including but not  
9 limited to financial statements on the accident fund, the medical aid  
10 fund, the supplemental pension fund, and the second injury fund.  
11 Statements must be presented separately by fund and in the aggregate;  
12 and

13            (b) Prepare financial information for the accident fund, medical  
14 aid fund, and pension reserve fund based on statutory accounting  
15 practices and principles promulgated by the national association of  
16 insurance commissioners for the purpose of maintaining actuarial  
17 solvency of these funds.

18            (2) Beginning in 2006, and, to avoid duplication, coordinated with  
19 any audit that may be conducted under RCW 43.09.310, the state auditor

1 shall conduct annual audits of the state fund. As part of the audits  
2 required under this section, the state auditor may contract with firms  
3 qualified to perform all or part of the financial audit, as necessary.

4 (a) The firm or firms conducting the reviews shall be familiar with  
5 the accounting standards applicable to the accounts under review and  
6 shall have experience in workers' compensation reserving, discounting,  
7 and rate making.

8 (b) The scope of the financial audit shall include, but is not  
9 limited to:

10 (i) An opinion on whether the financial statements were prepared in  
11 accordance with generally accepted accounting principles;

12 (ii) An assessment of the financial impact of the proposed rate  
13 level on the actuarial solvency of the accident, medical aid, and  
14 pension reserve funds, taking into consideration the risks inherent  
15 with insurance and the effects of the actuarial assumptions, discount  
16 rates, reserving, retrospective rating program, refunds, and individual  
17 employer rate classes, as well as the standard accounting principles  
18 used for insurance underwriting purposes; and

19 (iii) A statement of actuarial opinion on whether the loss and loss  
20 adjustment expense reserves for the accident, medical aid, and pension  
21 reserve funds were prepared in accordance with generally accepted  
22 actuarial principles.

23 (c) The department shall cooperate with the state auditor in all  
24 respects and shall permit the state auditor full access to all  
25 information deemed necessary for a true and complete review.

26 (d) The cost of the audit shall be paid by the state fund under  
27 separate contract.

28 (3) The state auditor shall issue an annual report to the governor,  
29 the leaders of the majority and minority caucuses in the senate and the  
30 house of representatives, the director of the office of financial  
31 management, and the director of the department, on the results of the  
32 financial audit and reviews, within six months of the end of the fiscal  
33 year. The report may include recommendations.

34 (4) The audit report shall be available for public inspection.

35 (5) Within ninety days after the state auditor completes and  
36 delivers to the appropriate authority an audit under subsection (2) of  
37 this section, the director of the department shall notify the state

1 auditor in writing of the measures taken and proposed to be taken, if  
2 any, to respond to the recommendations of the audit report. The state  
3 auditor may extend the ninety-day period for good cause.

4 **Sec. 2.** RCW 43.09.310 and 1996 c 288 s 35 are each amended to read  
5 as follows:

6 (1) Except as provided in subsection (2) of this section, the state  
7 auditor shall annually audit the statewide combined financial  
8 statements prepared by the office of financial management and make  
9 post-audits of state agencies. Post-audits of state agencies shall be  
10 made at such periodic intervals as is determined by the state auditor.  
11 Audits of combined financial statements shall include determinations as  
12 to the validity and accuracy of accounting methods, procedures and  
13 standards utilized in their preparation, as well as the accuracy of the  
14 financial statements themselves. A report shall be made of each such  
15 audit and post-audit upon completion thereof, and one copy shall be  
16 transmitted to the governor, one to the director of financial  
17 management, one to the state agency audited, one to the joint  
18 legislative audit and review committee, one each to the standing  
19 committees on ways and means of the house and senate, one to the chief  
20 clerk of the house, one to the secretary of the senate, and at least  
21 one shall be kept on file in the office of the state auditor. A copy  
22 of any report containing findings of noncompliance with state law shall  
23 be transmitted to the attorney general.

24 (2) Audits of the department of labor and industries must be  
25 coordinated with the audits required under section 1 of this act to  
26 avoid duplication of audits.

--- END ---